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EMBER 19, 1988

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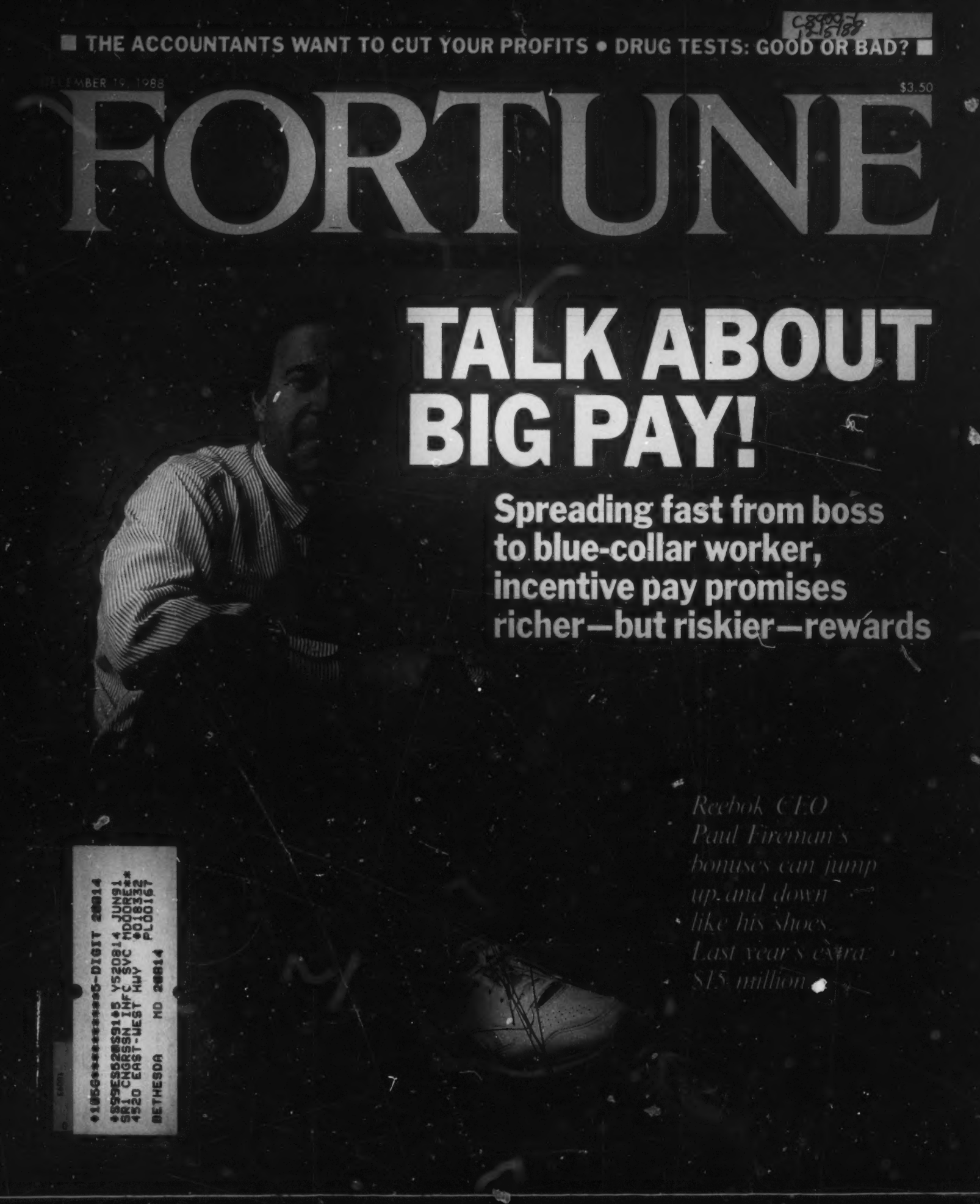
FORTUNE

TALK ABOUT BIG PAY!

Spreading fast from boss to blue-collar worker, incentive pay promises richer—but riskier—rewards



Reebok CEO Paul Fireman's bonuses can jump up and down like his shoes. Last year's extra: $15 million

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FORTUNE

MARK SELIGER

"We wanted to minimize our risk as well as create a potential for unlimited incentive."
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COVER: Mark Seliger photographed Reebok CEO Paul Fireman outside the company headquarters in Canton, Massachusetts.

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"Almost overnight the whole world changed for us."

PAGE 69

"We're spending millions on this. It's a rip-roaring pain in the behind."

PAGE 93

"Going against a company like P&G, you can't make mistakes or you'll be buried in six months."

PAGE 111

"I always control the stock—and I always have the last word."

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"I've fired people before for not being sincere, and I'll do it again."

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"Wouldn't it make more sense to have a hospital with a department simply called Backs, or Feet?"

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If you eat the mystery meat underneath the glutinous gravy, you are partly to blame. So are managers who labor under the illusion that they are in the transportation industry. They are really in the service business. *by Monci Jo Williams*

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EDITOR'S DESK

ANDY FREEBERG

Not really an eccentric, Loomis knows her numbers.

WE AT FORTUNE like nothing better than to tip you well in advance to favorable trends and happy surprises. But sometimes, like a loyal friend, we must also warn you of things that might go bump on your balance sheet. Did you know, for instance, that you may be stung with a stiff extra tax on your own pension benefits? For the particulars, and ways to limit the damage, see page 153, "Watch Out for the 15% Pension Tax." And were you aware that the little-known but all-powerful Financial Accounting Standards Board is readying new rules that may cut the profits your company can report to shareholders? I commend to you the story by Carol J. Loomis on page 93, "Will 'Fasbee' Pinch Your Bottom Line?"

It's hard to think of anyone better than Loomis, the winner of 12 awards for her distinguished journalism, to decode the mysteries of accounting. Jokingly placing herself on the "eccentric fringe" of society because she finds accounting so appealing, she is as comfortable with a corporate 10-K report as with a novel. The combination of her numerate insights and literate writing is what makes the prototypical Loomis story so inviting. Notes her story editor, Edmund Faltermayer: "If it's possible to see the poetry in accounting, Carol Loomis is the one to do it."

In previous stories, Loomis unearthed questionable accounting practices at Aetna and a deceptive financial transaction at Fireman's Fund. Her work led to investigations by regulators and tightened reporting policies for all insurers.

To Loomis, accounting's allure is its underlying rationality. But all is not black and white. She and reporter Reed Abelson sat in on a number of sessions where FASB's seven members deliberated proposed rules. Says Loomis: "The process is much more organized and intelligent than, say, it is in Congress. Yet you see the members' doubts and frustrations hanging out. You see them crawling to a conclusion and acknowledging in some instances that it isn't going to please their constituents." You may not be pleased by all you read in Loomis's story, but I think you'll find it most valuable.

IAN BRADSHAW

European editor Kirkland

Meanwhile, European editor Richard Kirkland comes in with another valuable warning: Merger mania is sweeping Europe, creating huge companies that will be tougher to compete against. In the story on page 157, Kirkland reports that the driving force is not so much raiders' desire for financial gain as managers' drive for competitive advantage.

Marshall Loeb

MANAGING EDITOR

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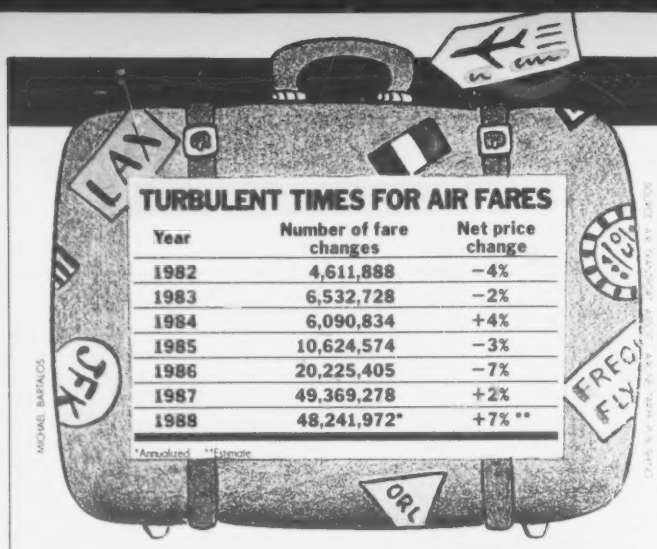

MICHAEL BARTALOS

TURBULENT TIMES FOR AIR FARES

Year	Number of fare changes	Net price change
1982	4,611,888	−4%
1983	6,532,728	−2%
1984	6,090,834	+4%
1985	10,624,574	−3%
1986	20,225,405	−7%
1987	49,369,278	+2%
1988	48,241,972*	+7% **

*Annualized **Estimate

The Gallo scientists are now examining the cells of children of alcoholics to see if they can find conclusive proof that alcoholism is hereditary, as previous research has suggested. The studies, says Dr. Carlton Erickson, executive director of the Texas Research Society on Alcoholism in Austin, "enhance evidence that alcoholism is a disease, not a character defect." The American Medical Association and many others already believe this. Conclusive proof, however, will be needed to convince the doubtful—and to encourage further spending on research. Erickson says treating alcoholism as a disease would benefit employers in many ways. For one thing, they would save money on retraining new employees.

– **Frederick Hiroshi Katayama**

Erickson in his Texas lab

AIR FARES: UP, UP . . . AND DOWN AGAIN?

■ Do the recent air fare hikes really mean all that much? Industry security analysts say they are nonplused by the blaring headlines that followed the wide cancellation of discounts in November. "It ain't front-page news," says Kevin Murphy, who covers airlines for Morgan Stanley. "It's happened before."

Indeed it has, on an almost seasonal basis, in the ten years since deregulation began. In the fall of 1986, for example, **American Airlines** led the way and many others followed suit. The next January, **Continental Airlines** reintroduced discounts—and others quickly did the same. Now, led by Continental, the industry is imposing another round of increases that probably will last through the holidays and into 1989, only to soften.

Business travelers spend about $35 billion a year on domestic flights, 20% on trips arranged within seven days of takeoff time. Such trips have been hit hardest by the price increase, which will raise these fares by about 30%. Even so, air travel remains a better bargain than before deregulation: Prices have risen at half the rate of the consumer price index. Fine-tuning to try to maximize profits, the airlines make fare changes by the millions without great effect on prices (see table).

The heads of many corporate travel departments believe fares might drop again in the new year—marginally if the economy is strong, dramatically if it is weak. Business travelers can't do much to fight price increases, but even before the recent round, some were trying. **Du Pont**, which spends about $100 million a year on domestic air fares, is increasing the number of video conferences among staffers who used to fly to meet with one another. In 30 months this has saved Du Pont $5 million in travel expenses.

– **William E. Sheeline**

HONESTY TESTS FOR NEW EMPLOYEES

■ Sure, George Washington quickly owned up to cutting down the cherry tree, but he wasn't asking his father for a job. Hence the more than

WHAT'S HOT	WHAT'S NOT
Teal-green ties; purple *anything*, period	Red ties (no yellow ones, either)
An extra six pounds	Skinny
Three-legged stools	Chintz
Oat bran *everything* (but beans are gaining)	'21' Club
Narcissism	Neuroses
Taxis	Limos
Portugal	China
The 1960s	The 1970s
Garter belts	Palimony
Calvin Klein's wife	Calvin Klein's designs
Dead celebrities	Sports Heroes
Fine wines	Wine coolers
Pet pigs	Bacon

■ Couch potatoes may well laze on through 1989, happily plugged in to their VCRs and munching their takeout food. But the true trendies will be beehivers—hyperactives who manage to live most of their hectic lives without leaving home. They raise kids, work on their computers, and work out on their exercise machines. All their discretionary spending goes to feathering their nests. Profligate spending is no longer chic. The collective inquiring mind of the trend-conscious Washington hostess, meanwhile, is dying for data on Barbara Bush. Above all else, which designer will she favor—or is the Aunt Tillie look going to be it? One thing's sure: She isn't about to dye her hair, and gray will be in. Says Barbara Feigin, executive vice president of Grey (no relation) Advertising: "Age is the rage, youth's uncouth."

WHY IS AIRLINE FOOD SO TERRIBLE?

Surprise! *You* are partly to blame—along with airline managers who labor under the illusion they are in the transportation business when they're not. ■ *by Monci Jo Williams*

AN AXIOM of the food service business holds that a chef can hide anything under a sauce. As any veteran flier knows, the chefs who devise those airline meals not only can—but often do. Lurking beneath that glutinous gravy is meat (origin unknown); gray, ancient-looking peas; a few sad, spindly grains of rice. And don't forget the inevitable hockey-puck hard rolls suitable for use as a blunt instrument.

What is this stuff masquerading on your plate as food? Why, for Pete's sake, didn't you leave your tray table in its upright position? And why, oh why, is airline food so *bad*?

You may never get an answer to the first two questions, but here are a couple of reasons for the third. Believe it or not, fliers, *you* really don't care. That's what the airlines say you have told them. The other reason is related to the first: Airlines see no competitive advantage in offering you more sumptuous fare.

In a 1984 survey by the International Airline Passengers Association, a consumer group of 100,000 frequent fliers, travelers ranked the quality of food and drink no higher than 11th on a list of 14 consumer concerns, far behind convenient schedules and low ticket prices. FORTUNE's own marketing survey of more than 700 subscribers this year confirms that food is a low priority for fliers (see table). If you don't let the food influence your purchasing decision, as the marketers say, why should the airlines improve the food?

At its worst, airline food does meet the minimum standard for edibleness—you do eat it, don't you? According to a recent survey conducted for the Inflight Food Service Association, the industry group for the people who furnish the meals, most fliers believe the food has maintained its quality or improved in the nine years since deregulation. Last year U.S. airlines spent $1.6 billion, or 3.5% of operating expenses, to feed passengers on flights originating in the United States. In 1978 the amount was $726 million, or 3.4% of operating expenses.

Executives at many airlines and in-flight food service companies refused to be interviewed, one of them explaining that a recent episode of food poisoning on a Northwest Airlines flight made the subject particularly sensitive. But a few chefs and food service managers cited the survey data ranking food low in priority as evidence that the meals they serve don't need improvement.

Not so, says Michael Marchant, president of the Inflight Food Service Association and vice president of Ogden Allied Food Services, which caters to international carriers. Marchant believes the airlines are misreading the surveys. He says that once a passenger is strapped into an airline seat and trapped for an hour or more, "his first few priorities—getting to his destination and getting there at a reasonable price—are being satisfied. Now, for as long as he is on that plane, the passenger wants service, and good food is part of that."

This brings us to the second reason for airline food's mediocrity: management. Some airline executives labor under the misapprehension they are in the transportation business, when their real business is providing service. They are not simply carting cattle from one

ILLUSTRATIONS BY DANA FRADON

WHAT'S MOST IMPORTANT TO AIRLINE PASSENGERS

Travelers who took a business trip in the past 12 months

	Frequent (10+ trips)		Moderate (3–9 trips)		Light (1–2 trips)	
	%	Rank	%	Rank	%	Rank
Convenient schedules	95%	1	93%	1	88%	2
Flies to places I generally go	89%	2	92%	2	89%	1
Fast check-in and boarding	84%	3	79%	7	82%	6
Comfortable seating	83%	4	81%	6	81%	8
Preassigned seats	83%	4	77%	9	71%	12
Good on-time performance	82%	6	87%	3	83%	5
Good safety record	80%	7	85%	4	85%	3
Friendly/efficient personnel	77%	8	82%	5	84%	4
Efficient reservations	73%	9	79%	7	82%	6
Good in-flight service	72%	10	69%	11	74%	10
Efficient baggage handling	66%	11	77%	9	81%	8
Caters to business fliers	62%	12	50%	13	42%	13
Frequent-flier program	61%	13	42%	14	19%	15
Low or discount fares	56%	14	60%	12	73%	11
Good food and beverage service	41%	15	39%	15	40%	14

place to another; they are in the business of providing a satisfying experience, with all that this entails in terms of comfort, convenience, and, let's hope, that certain *je ne sais quoi*. Yet if the truth be known, the carriers would rather not feed the customers at all. Says an executive at a major airline: "It's one of those things that if the other guy didn't do it nobody would."

PLANES, which are essentially narrow metal tubes, are not ideal venues for restaurants. The environment can be downright inhospitable for food, not to mention people. About half the cabin's air comes in through the superhot engines, which suck out all moisture before the air is cooled for use in the plane. That's what makes for those hockey-puck dinner rolls and, incidentally, for contact lenses that dry out and adhere to your eyeballs.

Because the galley is too small to hold more than a little refrigerator and a couple of convection ovens, there isn't room for chefs, sous chefs, and sauciers to run around stirring the pot. Food is prepared on the ground hours ahead of time, usually by Marriott, Sky Chefs, and the other service outfits, but occasionally by the airlines themselves (United has its own kitchens in 15 cities). That mysterious meat and those itty-bitty peas are partly cooked, cooled, and crammed into those undersize oblong casseroles that the trade calls "dog dishes." (No wonder the food looks so unhappy.) The dog dishes are frozen, then covered with aluminum foil, loaded onto a cart, and stored until it is time to wheel them out to your plane, where they are unloaded and reloaded in the galley. About 15 minutes before mealtime, they are reheated and unloaded onto another cart for cabin attendants to roll up and down the aisles against the streams of passengers on their way to and from the head.

Yessir, it's tough dishing it out at 30,000 feet. But some international carriers—among them Swissair, Lufthansa, and Singapore Airlines—do a terrific job. That's partly because they can afford to spend more to feed you. They operate longer, more profitable flights than domestic lines do, and some are subsidized by their governments. Though Swissair is not subsidized, it considers itself an ambassador of its country. Says Willy H. Sayer, manager of catering: "Many of our travelers are tourists, and the flight is their first impression of Switzerland. We want them to have a good one."

Even the best meal aboard a plane will not equal what you'd get in a top-notch restaurant. But, says Sayer, "it can come close." One current economy-class menu on an $811 flight from New York City to Geneva includes beef tenderloin, duchess potatoes, and rum cake. A first-class ticket on Swissair's Geneva flight costs $1,896, and the menu includes caviar, goose liver with fennel and raspberry sauce, roast loin of veal sliced from the cart, followed by cheese and port. The leisurely three-hour repast costs the airline an astounding $99.97 per person, not including the cost of the wine.

ON DOMESTIC flights, first and business classes are more profitable than economy, and the food is better than it is in steerage to lure top-paying passengers. Some domestic carriers have chosen to distinguish themselves by their service. For example, Midwest Express, a small airline headquartered in Milwaukee and owned by Kimberly-Clark, the paper producer, runs flights that average about two hours and charges full fares with very few discounts. Flight attendants actually bake chocolate chip cookies on the plane, and the odor wafts through the cabin. Says John Farrer, manager of dining services: "We want to show the airline cares."

The major U.S. carriers spent an average of $4.21 per meal per passenger during the third quarter of 1987, the last period for which figures are available, but Midwest spends $9. Dinner consists of a salmon tartar appetizer, braised grouse, and a charlotte russe for desert—washed down with suitable and complimentary French wines.

It seems obvious that food will never be the priority with airline travelers that safety, on-time arrivals and departures, and convenient flights are. Moreover, it is not clear that passengers would pay more for their tickets to get better food. But Midwest Express flights to such well-served cities as Boston, Dallas, and New York are frequently sold out, and Swissair's North Atlantic business is growing 7% a year. Airline executives who are slow to figure out that service sells may find themselves in for a nasty competitive surprise—nastier, even, than the one waiting for you in your dog dish. ■

REPORTER ASSOCIATE *Charles A. Riley II*